APPENDIX H

General Order No. 6

BEFORE THE NEBRASKA TAX EQUALIZATION AND REVIEW COMMISSION

IN THE MATTER OF:	)	GENERAL ORDER No. 6
THE TAX EQUALIZATION AND REVIEW COMMISSION	)	ORDER ADOPTING REVISED ASSESSMENT STATISTICAL STANDARDS DEFINITIONS AND TIME PERIODS

THIS MATTER came on for hearing this 20th day of December, 1996.

The Commission makes the following findings of fact:

I. The Constitution of the State of Nebraska directs that all real property and franchises shall be uniformly and proportionately valued for purposes of taxation.

II. The Constitution further directs that revenue shall be raised by taxation in such manner as the Legislature shall direct.

III. The Legislature, in order to fairly and equitably distribute the burden of taxation, has directed that non-agricultural real property shall be valued at its actual (market) value.

IV. The Constitution and State Laws further require that valuation (i.e., assessments) be equitable among and between classes of property (except agricultural and horticultural land which is not required to be uniform and proportionate with all other real property and franchises, but must be uniform and proportionate within the class of agricultural and horticultural land; agricultural and horticultural land is a separate and distinct class).

V. The Commission, according to its constitutional and statutory duties, must review and equalize assessments and hear appeals regarding assessments and the equalization of those assessments. In order to fulfill those duties, objective standards against which assessment practices may be measured are essential.

VI. Furthermore, such objective standards are necessary in order to effectively, fairly and equitably address the issues of intra county and inter county equalization; to fairly determine the disposition of appeals made to the Commission; to fairly determine the disposition of county petitions; to adjust valuations of a class or subclass by a percentage; and to develop and implement a statewide plan for equalization.

VII. Finally, such objective standards are necessary in order to establish goals towards which assessment practices may be directed and progressive improvement can be measured.

IT IS THEREFORE ORDERED THAT THE COMMISSION SHALL EVALUATE ASSESSMENT PRACTICES AS FOLLOWS:

I. Assessment practices of the counties and the state (for centrally assessed property) shall be evaluated through the use of the Median of the appropriate assessment/sales ratios for Residential, Agricultural and Commercial and Industrial Sales Studies. Other measures of central tendency may also be calculated as necessary. The use of the median of the appropriate ratio does not preclude the use of other ratio studies to support, supplement, or reinforce the sales study. (The assessment/sales ratio indicates the level of value of the properties being studied.)

II. Assessment practices shall also be reviewed for measures of central tendency which indicate the quality of assessment.

A. **Assessment/Sales Ratios**

1. The I.A.A.O. Assessment/Sales definition is adopted by the Tax Equalization and Review Commission. The definition is: *The assessment/sales ratio is the ratio between a property's appraised or assessed value and its estimated market value. The ratio study measures and evaluates the accuracy and uniformity of the values.*

2. The acceptable **range** for the median assessment/sales ratio for **nonagricultural real property (i.e. both residential and commercial and industrial classes) shall be 92 to 100.**

3. The acceptable **range** for the median assessment/sales ratio for **agricultural land shall be 74 to 80.**

4. The Tax Equalization and Review Commission may issue a show cause order to a county when the assessment/sales ratio for one or more classes or subclasses of property falls outside the appropriate acceptable range.

B. **Price Related Differential (PRD)**

1. The I.A.A.O. Price Related Differential definition is adopted by the Tax Equalization and Review Commission. That definition is: *The Price Related Differential indicates assessment bias and inequity between lower valued properties and higher valued properties.*

2. The PRD is used to determine whether properties of differing values are treated uniformly. A PRD that is under 100 indicates higher valued properties are valued at a higher assessment level than lower valued properties. When the PRD is over 100 it indicates lower valued properties are valued at a higher assessment level than higher valued properties.

3. The acceptable **range** for Price Related Differential shall be **.98 to 1.03**.

4. The Tax Equalization and Review Commission may issue a show cause order when the PRD for one or more classes or subclasses of property falls outside the appropriate acceptable range.

C. **Coefficient of Dispersion (COD)**

1. The I.A.A.O. definition of the Coefficient of Dispersion is adopted by the Tax Equalization and Review Commission. That definition is: *The Coefficient of Dispersion is the average absolute deviation from the median stated as a* ***percentage****.*

2. The COD is used to measure assessment uniformity in ratio studies.

3. The acceptable ranges for the COD shall be:

a. For **residential** real property **15.0 or less.**

b. For **agricultural** land **20.0 or less.**

c. For **commercial and industrial** real property **20.0 or less.**

d. For **vacant land and other property classes 20.0 or less.**

4. The Tax Equalization and Review Commission may issue a show cause order when the COD for one or more classes or subclasses of real property falls outside the appropriate acceptable range.

III. **Sales Data Base**

A. The Commission shall evaluate an assessing jurisdiction's quality of assessments through statistical ratio studies. These studies shall be based on the sales used in the Property Tax Division's Sales Data Base. For the Commission's purposes, the sales shall be drawn as indicated:

1. Agricultural land sales shall be drawn from a 36 month time frame beginning three years prior to July 1 of the preceding year. (i.e., for 1997, sales from July 1, 1993 through June 30, 1996)

2. Residential real property sales shall be drawn from a 24 month time frame beginning two years prior to July 1 of the preceding year. (i.e. for 1997, sales from July 1, 1994 through June 30, 1996)

3. Commercial and Industrial real property sales shall be drawn from a time frame as short as possible, but with at least a two year minimum period. Noting the small number of sales in these classifications, in most jurisdictions, it is recognized that a specified time frame is not as appropriate as for other classifications of real property.

4. The Tax Equalization and Review Commission will give consideration to the methodology used by the counties in determining time adjustments and to the impact time adjustments may have on the overall statistical analysis results.

a. The I.A.A.O. definition for **time adjustments** is adopted by the Tax Equalization and Review Commission. That definition is: *Time adjustments account for changes in market value, inflationary or deflationary, covering a definite time span.*

b. The significance of the "time adjustment" is found in *Property Assessment Valuation,* 2nd Edition (1995), p. 77. "When market value increases or decreases over time, an adjustment to the sale price of the comparable is required for time of sale."

c. Since the real estate market is rarely if ever static, "time adjustments" are a standard and required mass appraisal practice. The Commission, therefore, when considering assessment practices at either the county or state (for centrally assessed property), will evaluate the method and manner of "time adjustments." The assessing body must justify its "time adjustment" practices based on evidence.

d. The Commission may issue an order for a show cause hearing if evidence suggests that the sales upon which statistical analyses are based should have been adjusted for time, and were not.

IV. DEFINITIONS OF TERMS USED BY THE COMMISSION

A. Market Area

1. A market area is a geographical area with sales of properties that are similarly influenced by environmental (physical), governmental, social and economic factors.

2. The boundaries may be natural, political or manmade.

    a. Natural boundaries may be rivers, lakes, hills, ravines and undeveloped areas.

    b. Political boundaries may be city limits, school districts, zoning or assessment districts.

c. Man made boundaries may be streets, highways, freeways, railroad tracks and major utility rights-of-way.

3. When sales analyses indicate different levels of value for similar properties located in different areas within a jurisdiction, designating a market area may be appropriate.

4. The Tax Equalization and Review Commission may issue show cause orders when a county's statistical analysis indicates disparity by township (geocode), insufficient sales for a representative sample, or any other statistical indication that designating a market area may be appropriate.

B. Benchmarks

1. The Tax Equalization and Review Commission adopts the I.A.A.O. definition for benchmarks. That definition is: *A benchmark appraisal is a detailed appraisal study of representative property (one that is typical of a class of property often appraised) for the purpose of studying the market.*

2. Benchmarks may be developed to indicate the market value established for each use type (class or subclass) that have sold.

3. A benchmark establishes a base by which to measure the value of similar properties within a neighborhood or market area when sales are insufficient to provide a proper level of confidence in the statistical analysis.

4. Benchmarks can be developed using the cost approach, income approach and sales comparison approach. They may be developed for "hard-to-appraise" unique properties.

5. Benchmarks may be determined or developed using multiple regression analysis when performed by *qualified, trained, and experienced personnel.*

6. Benchmark appraisals should be made within the local jurisdiction whenever possible. When no comparable property

upon which a benchmark appraisal may be made exists within a local jurisdiction, a benchmark appraisal may be made on a comparable property from outside the local jurisdiction. Under such circumstances, the comparable property must be located within a market area similar to the market area of the subject property of the local jurisdiction.

7. The Tax Equalization and Review Commission may issue an order for a show cause hearing if benchmark appraisals should have been made to value a property or properties, and were not.

B. Pickup Work

1. The definition of "pickup work" is all new construction that has taken place since the last assessment date and on or before January 1, 12:01 A.M. of the current assessment year. "All new construction" includes new buildings, rehabilitation, modernization, remodeling, and additions.

2. The assessment and valuation of the new construction must be completed in order to send timely assessor "notice of valuation changes".

3. New real property construction, or undervalued or omitted real property, by law, is taxable from the first assessment date after construction began. The taxable value of such property must be calculated for each assessable year using the appropriate valuation and tax rate. Partially completed structures must be assessed.

4. The only exception to this statutorily required valuation is property that has been omitted from the tax rolls for 15 years or more from the date of delinquency. Neb. Rev. Stat. § 77-1862 (Reissue 1990) states in pertinent part that "Any and all taxes and special assessments together with interest, penalty and costs, levied upon any real property, and any lien created thereby in this state and due to this state or to any county or other political subdivision thereof, becoming delinquent in the calendar year 1944, or any subsequent year, are hereby released and extinguished forever upon expiration of fifteen years after the date upon which the tax or special assessment became or shall

become delinquent." Therefore, the taxable value for any property which has not been assessed previously need not be determined for those assessments which are 15 or more years old.

5. Uniform and proportionate assessments require that new construction be valued, assessed, and taxed in a timely fashion. In order to determine whether "pick up work" is performed, and that therefore, uniform and proportionate assessments are made, the Commission shall review appropriate documentation, including but not limited to the following:

   a. Abstracts of Assessment
   b. Assessment Reports
   c. County Profiles
   d. Certificate of Taxes Levied
   E. Any other appropriate sources

6. The Tax Equalization and Review Commission may issue an order for a show cause hearing when evidence suggests that new construction is not being assessed, valued and taxed in a timely manner.

C. Standard Deviation

1. The Tax Equalization and Review Commission adopts the I.A.A.O. definition for Standard Deviation. That definition is *"Standard Deviation is the primary measure of dispersion in scientific research, and under certain assumptions, can be a powerful measure of Appraisal and assessment uniformity."*

   a. In order to be statistically relevant, the sales upon which the Standard Deviation is based must represent an unbiased representative sampling of sales.
   b. In order to be statistically relevant, the sales data must be normally distributed (bell shaped curve).
   c. The Standard Deviation is calculated around the mean.
   d. The standard deviation is calculated using squared differences, not absolute differences.

2. The Standard Deviation is significant since, with normal

distribution, approximately 68% of the data will fall within the 1st Standard Deviation; approximately 95% of the data will fall within 2 Standard Deviations; and approximately 99% of the data will fall within 3 Standard Deviations.

3. In ratio studies, the larger the standard deviation, the wider the range within which a given portion of the properties are appraised relative to market value.

   a. Depending on the representativeness of the sample and the distribution of the data, the Standard Deviation can be **either a powerful or a misleading measure of assessment uniformity.**

   b. The analyst must verify that the data approximates a normal distribution before placing credence in the statistics.

4. The Tax Equalization and Review Commission may issue an order for a show cause hearing if the Standard Deviation indicates a lack of assessment uniformity and is supported by other results of statistical analysis and studies. The Standard Deviation, therefore, will not be relied upon standing alone, but will be used with other statistical results in order to determine whether appraisals are uniform and proportionate.

D. C.O.V.

1. The Tax Equalization and Review Commission adopts the I.A.A.O. Definition of Coefficient of Variance. That definition is *"The COV expresses the Standard Deviation as a percentage. The COV is the Standard Deviation divided by the mean Assessment Sales ratio, multiplied by 100."*

2. The Tax Equalization and Review Commission shall review the C.O.V. for it's relevance in the overall statistical profile.

V. The Assessment Standards, Acceptable Ratio Ranges, Definitions and the Sales Time Period set forth above shall be in full force and effect for calendar years 1997, 1998 and 1999.

VI. The aforesaid standards shall be the standards used to evaluate the assessment practices of the counties and the state (for centrally assessed property) for the time periods set forth above. "Show Cause" orders shall be issued to those counties whose assessments, as shown by statistical analyses made by the Property Tax Division, are inconsistent with the standards set forth above.

VII. General Order Number 5 is hereby rescinded.

IT IS SO ORDERED.

Dated this 20th day of December, 1996

ALL COMMISSIONERS JOIN IN THIS ORDER.

Mark P. Reynolds, Chairman

Janet L. Edwards, Commissioner

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Robert L. Hans, Commissioner